Impact Of IGCC Investments On Power Company Financials

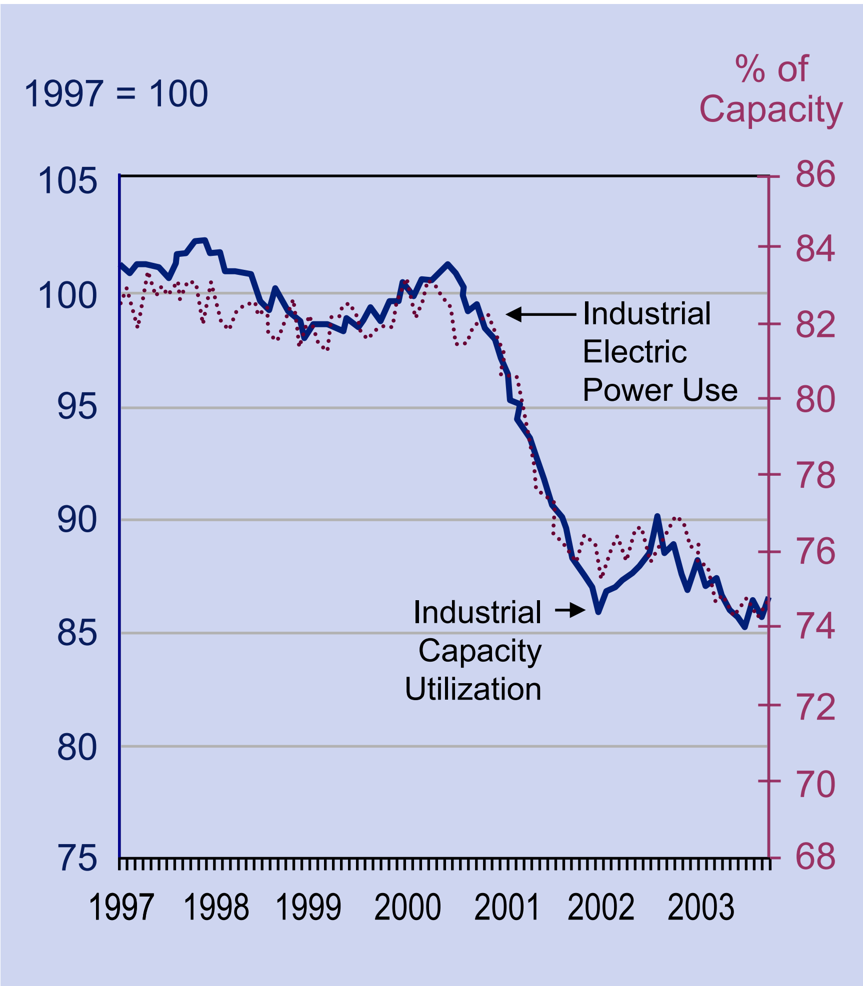
July 2004

Agenda

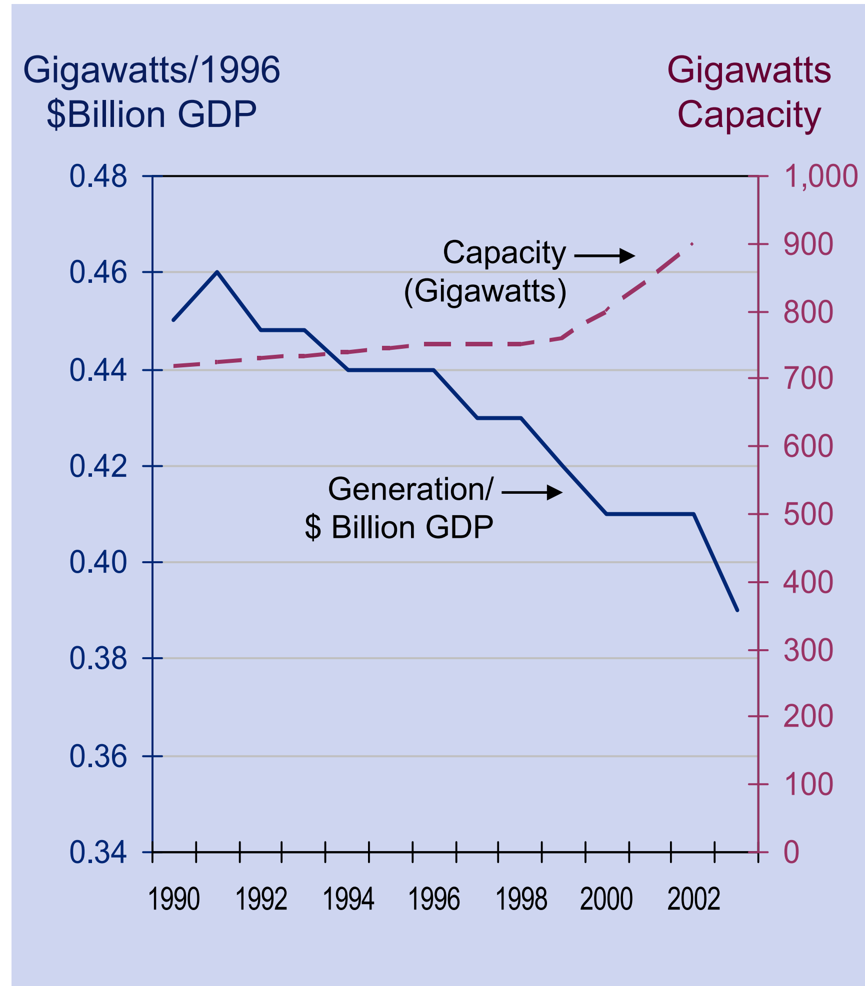
- Current Situation
- Industry and Investment Drivers
- Mitigation Opportunities and Options
- Strategic Implications for IGCC

While There Is Growth In Energy Demand, It No Longer Keeps Pace With GDP Growth

Demand Correlation



Capacity Relationship



Source: Standard & Poor's

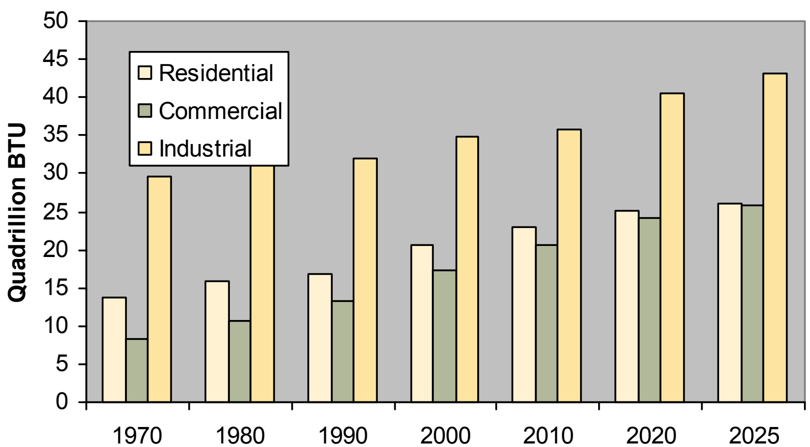
Coal May Re-emerge As A Fuel Of Choice To Meet Growing Demand In The US

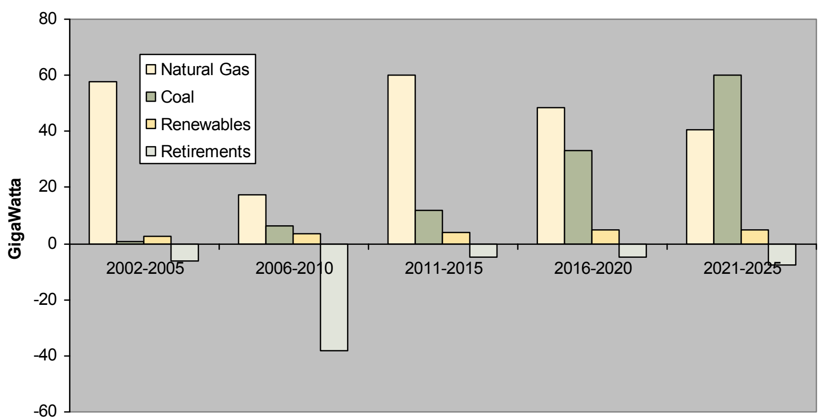
Energy Demand

- Energy demand in the residential sector is projected to grow at one-third the expected growth rate for GDP (3%)
- Demand growth in the commercial sector is expected to grow at over one-half the GDP growth rate

Capacity Addition

- Half the new generation capacity is expected to enter service between 2016 and 2025
- Most of the coal capacity is expected to enter service after 2020



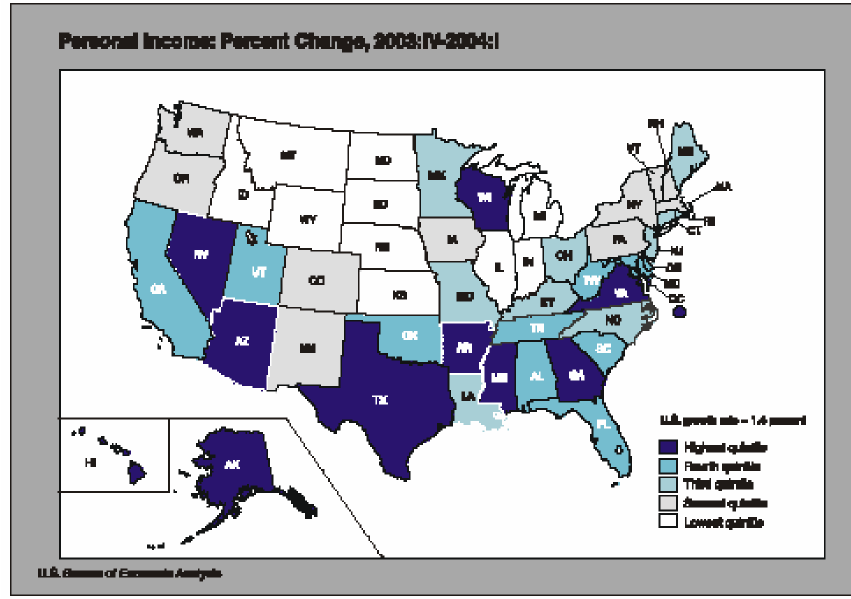


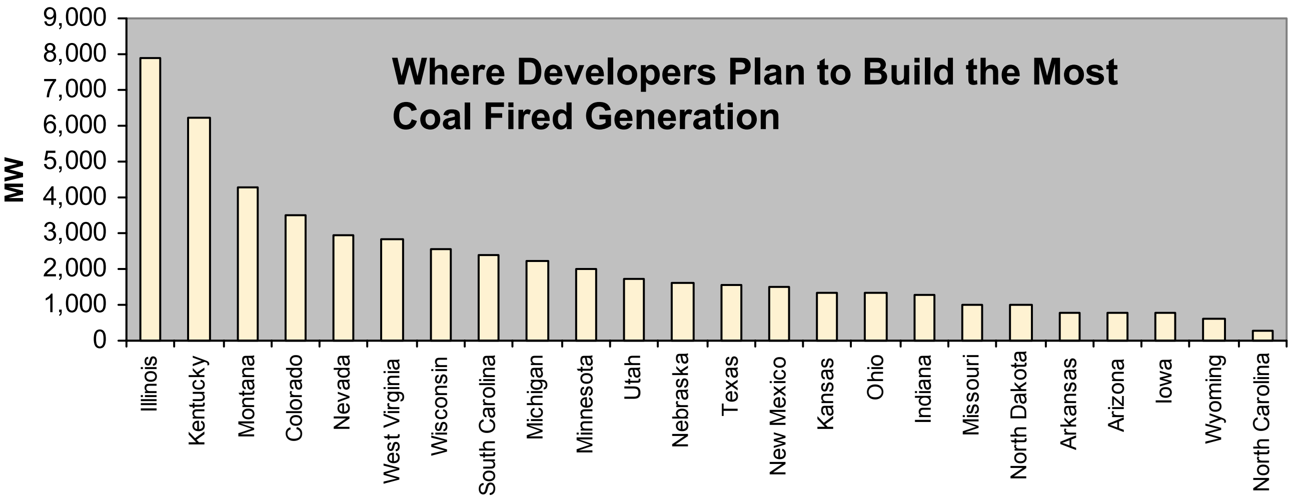
Source: EIA Annual Energy Outlook With Projections to 2025

However, In The US, The Largest Coal Capacity Additions Do Not Coincide With The Growth Areas

Energy Balance

- Capacity additions are being planned in states with the resource, which does not always represent the states with the highest economic growth.
- More than a quarter of the new additions are planned for Illinois and Kentucky.





Source: Energy Economist, 1 June 2004, BEA, and EIA

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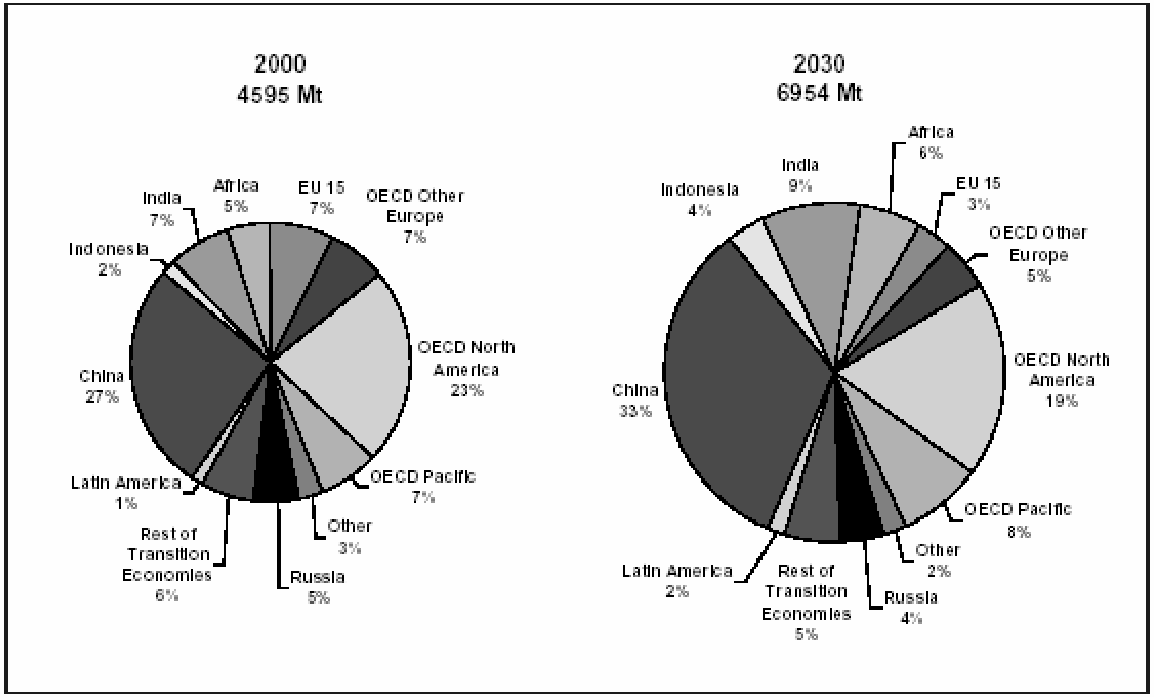
Coal Will Continue To Fuel The Economic Growth In China And May Present An Opportunity For IGCC

Energy Demand

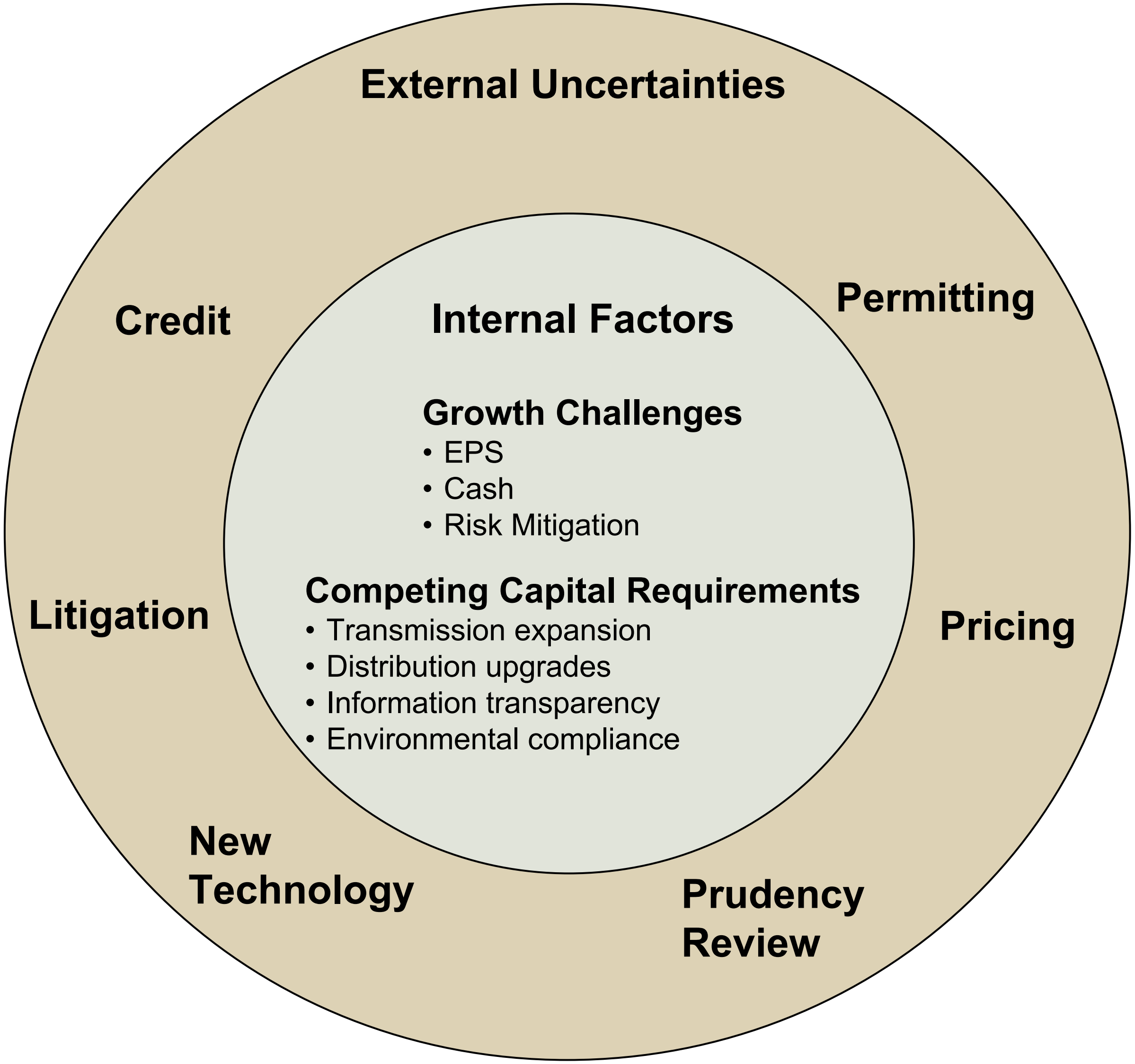
- 45% of the projected growth (1,072 Mt) in demand for coal is due to increased energy consumption in China



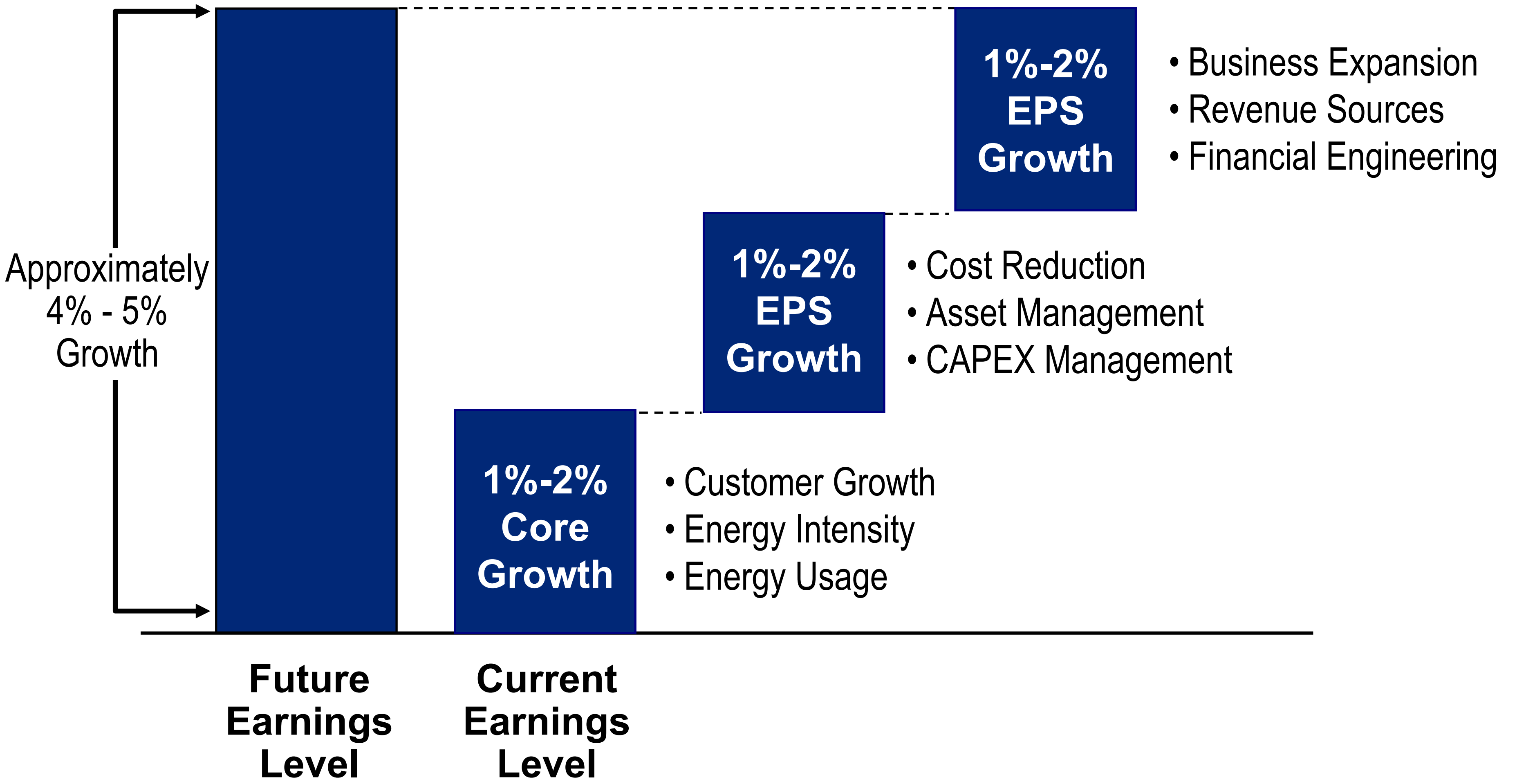
Source: IEA

"The have little or no interest in environmental consensus"
Source: Wall Street Journal 7/9/2004

Risks To Investment Decision Arise From Both External And Internal Factors



Utilities Will Make Large Capital Investments Only if they Mitigate Their Growth Challenges



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Currently, IGCCs Present A More Risky Option In Comparison To Other Investment Opportunities

Value Element	Relative Comparison				
	Opportunity Level	Investment Scale	Value Potential	Business Risks	Regulatory Involvement
Power Generation	High	Moderate	Moderate	High	Low
IGCC	Low	Low	Moderate	High	Moderate
Marketing and Trading	Moderate	Low	Moderate	High	Low
Gas Pipeline	Low	Moderate	High	Low	Moderate
Gas Storage	Low	Low	Moderate	Low	Low
Electric Transmission	Low	Moderate	High	Low	High
Electric / Gas Distribution	Moderate	High	High	Moderate	High
Integrated Company	Moderate	High	High	Moderate	High

Relative Comparison: High, Moderate, Low

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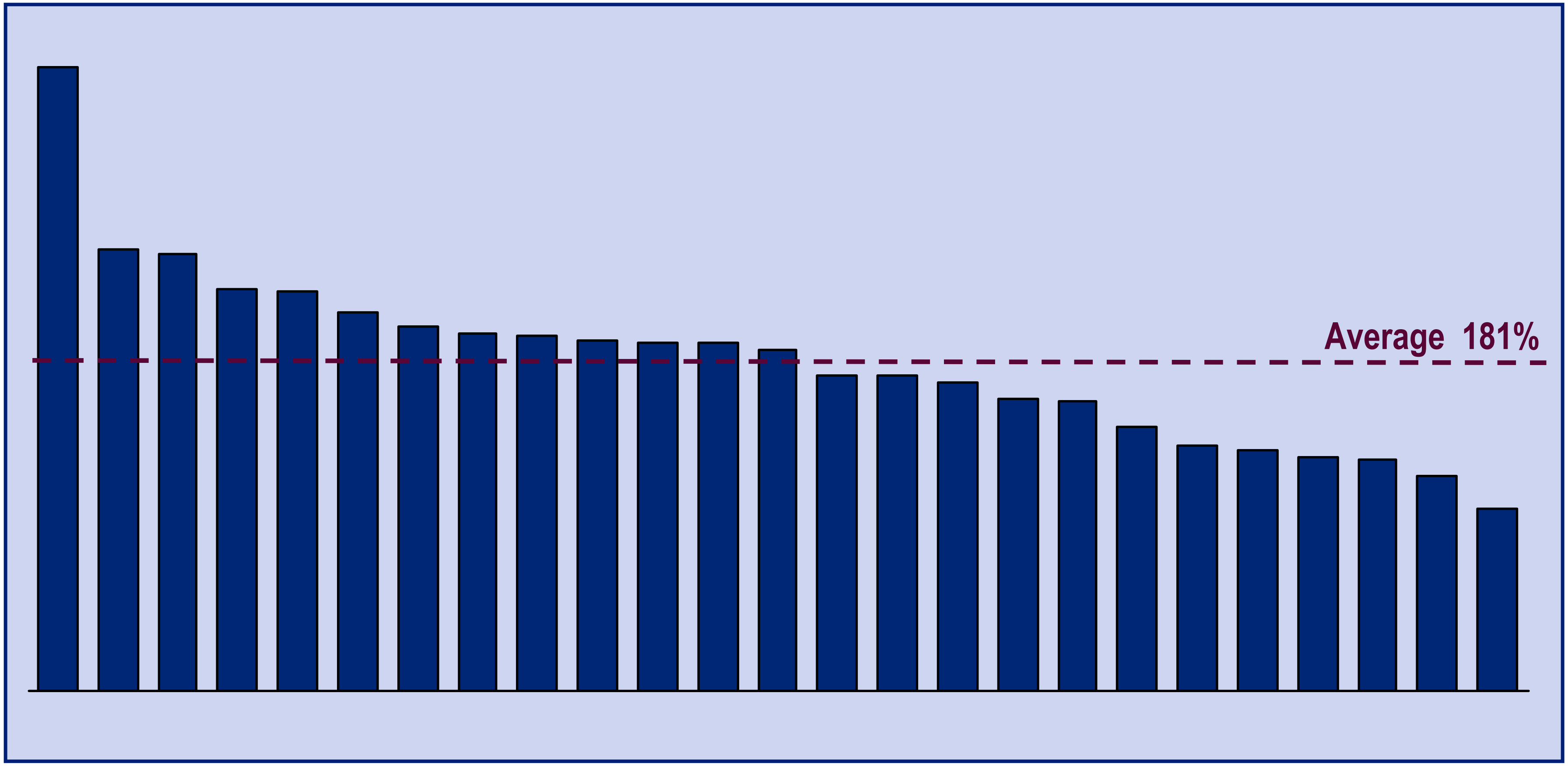
Companies Have Already Spent A Significant Amount Of Capital On Distribution Assets That Are Not In Rate Base

3 Year CapEx per $ Depreciation (Distribution)



Selected Holding Companies

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Outcomes Of Earlier Actions Temper Companies From Long-term Investments

Base Assumptions	Realities: Actual Results	Realities: Future Environment
Capacity shortage	Shortfall runoff	Multi-year surplus
Rapid deregulation	Momentum lost	Politically toxic
Open transmission access	Slow progress	Uphill climb
Low gas prices	Early years	Unlikely soon
Old plant retirements	Never happened	Some potential
Incumbent asset sales	Tapered off	Mix change
Partial off-takes	Largely utilized	Not financable
Liquid trading market	Until credit meltdown	Stagnant, changed players
Debt financed	Banks responsive	Contract linked

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Current Drivers Need To Be Aligned To Increase Investment In IGCCs

Drivers

- Priority to balance sheet / cash flows
- Portfolio rationalization
- Return to rate cases
- Tighter capital allocation
- Increased private equity infusion / ownership
- Reemergence of functional specialists
- More CXO replacements
- Renewal of M&A

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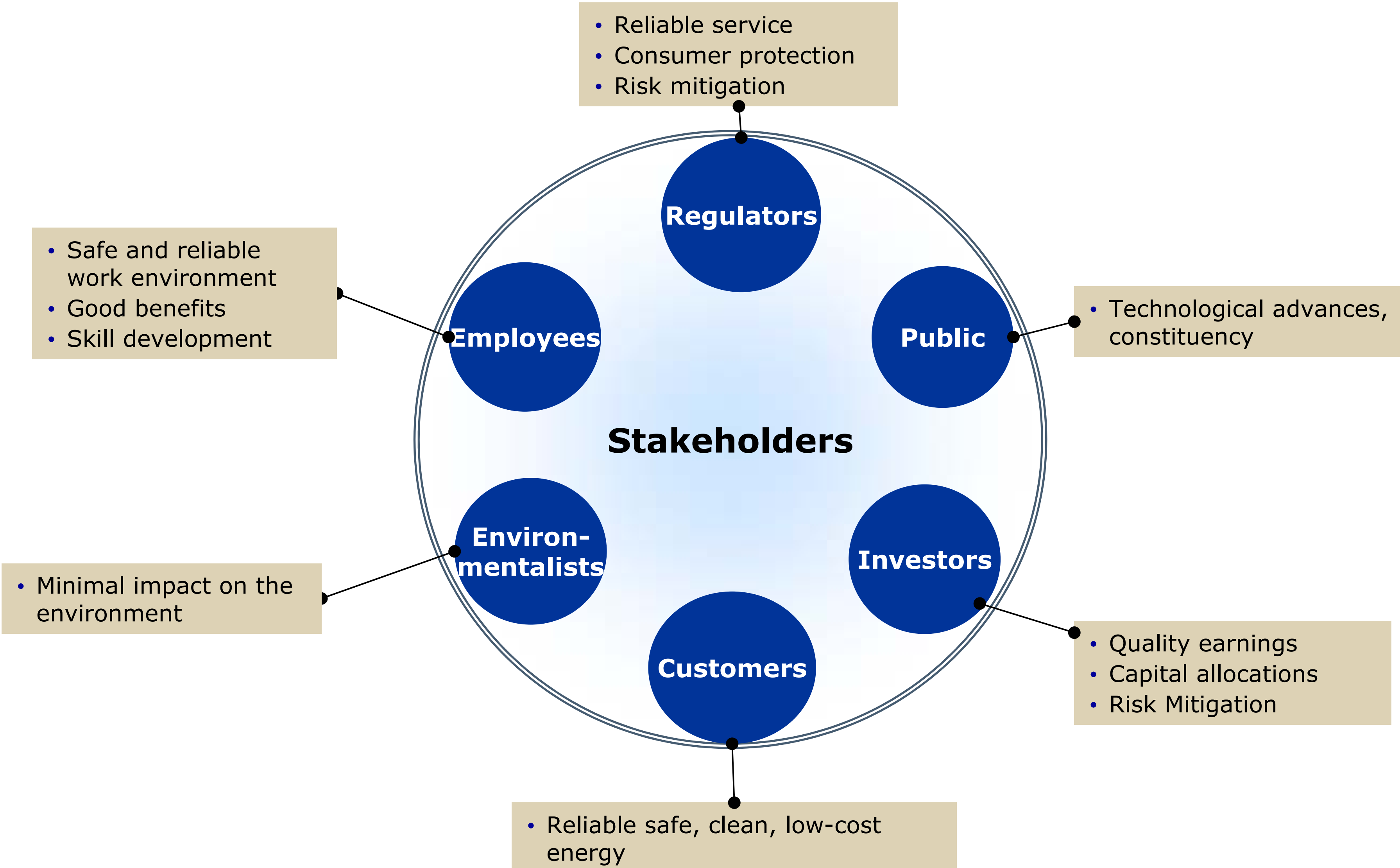
However, Incentives Could Make IGCCs Competitive

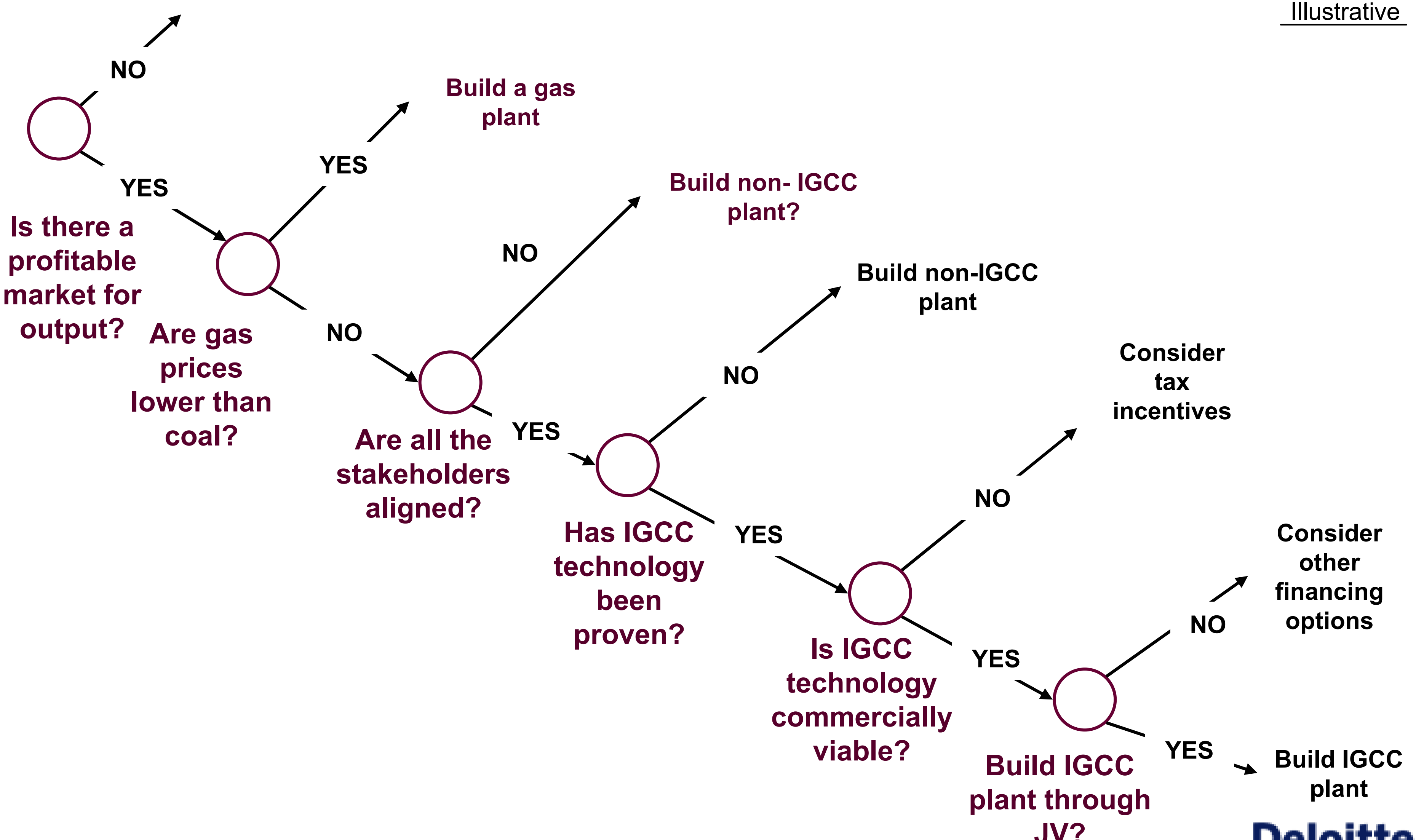
	Regulated Utility	IPP	Muni	COOP
Investment Tax Credit	Normalized – amortized over plant life	Can all be taken in year one	Non taxable entity - would need offsets	
Production Tax Credit	Might extend credit from certain renewable sources			
Loan Guarantees	Fin 46 – Need to consider duration, debt/equity management, and project financing			
Accelerated Depreciation	Through 12/31/04 50% bonus available first year for tax purposes. MACRS for remainder of basis			
Risk Pool Funds	Funds would be accounted for similar to CIAC – same across entities			

Multiple Stakeholders Objectives Also Have To Be Aligned For IGCC To Achieve Market Success



A Decision Tree Approach: A Multitude of Factors will Be Considered For An IGCC Investment

Illustrative



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Therefore, IGCC Will Be Successful If Program Approach Is Adopted That Encompasses All Aspects Of Risk Mitigation and Decision Analysis

Accelerate/Expedite Approval Process

- Local and regional citing and environmental reviews
- PUC involvement

Eliminate "technical" risk perceptions

- Educate stakeholders on technology readiness and benefits
- Demonstration of success
- Culling out the "perpetual motion" machine

Promote Consumer Education

- Expand constituencies
- Develop communications strategy and materials

Reduce Economic Risks

- Accelerated Depreciation
- Promote Property Tax exclusion
- Loan Guarantees
- Expand to international markets

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